

THE XXIV PONTIGNANO CONFERENCE

Who Owns the Future?

15-17 September 2016

LA CERTOSA DI PONTIGNANO, SIENA



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British Council
Via di San Sebastianello 16
00187 Roma
T +39 06 478141
F +39 06 4814296
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WELCOME TO THE 24th EDITION OF THE PONTIGNANO CONFERENCE



We are collectively experiencing the age of constant transformation. Change propels us into uncharted territory faster than ever. Elected politicians and institutions - as well as the people they govern - are struggling to influence what is happening around them. In this new 'fast-forward' universe, learning from the past and taking time to analyse and act on the present is a rare and at times impossible commodity. How then should we be shaping the future?

For the first time in human history, technologies are converging into a digital revolution that is changing our lives in exciting and unpredictable ways. It brings hope, convenience, a boost in innovation, creativity and growth. But it also ushers in uncertainty, insecurity and risks, which need to be understood and managed. In our highly networked society and globalised economy, many see in Europe a rapid disintegration of the institutional, political, social and cultural constructs which have held strong for decades - as well as increasingly dangerous divisions within and between countries. What we are experiencing is undoubtedly transforming our continent. But into what? And who owns and who directs this change?

Paul Sellers
Director, British Council, Italy

Unprecedented migration brought on by poverty and war is leading to both a humanitarian and an identity crisis for the EU. 'Brexit' is proof that the status quo should not be assumed.

Yet migration across the centuries has created, enriched and nourished our European societies; the unavoidable reality is that we need to integrate hundreds of thousands of people who have no option but to remain in no-man's land until we find an effective, healthy, and realistic solution for their (and our) futures. And to do it fast. And a new question is how to tackle the forces of terror (to which we can now add cyber terror) which are far less tangible, identifiable and quantifiable in their origins and purpose than in the past. The shocking terrorist attacks in the heart of Europe this past year triggered responses both of solidarity and of polarisation.

Reclaiming ownership of this uncertain future implies a common vision of the kind of society we want and need, and therefore a shared platform of ideas, values and ideals rooted in pragmatism - without ever losing sight of our shared humanist ethos.

We hope this year's Pontignano conference will prove to be just this kind of platform.

Jill Morris
HM Ambassador
to Italy and San Marino

INTRODUCTION BY THE CO-CHAIRS



Both our countries are experiencing a critical moment in their history. We are propelled by forces of change which we have yet to properly define, and called to defend our national integrity as well as to respond globally to economic and social challenges.

At the same time as tackling the repercussions, with their unique manifestations in each country, and a range of parallel challenges – economic, demographic, and democratic, we know at the core that we are part of a whole: Europe and its values, which both countries have been at the forefront of defending and supporting for decades.

Yet 'Brexit' raises fundamental questions, and the democratic systems which we see as underpinning these values are under strain. The issues we must address collectively have become increasingly complex.

The Rt. Hon Lord David Willetts
Executive Chairman
of the Resolution Foundation
and Visiting Professor at King's College,
London

Just last month we came face to face with natural disaster in central Italy. We were once again reminded that the cost of human life is equal - and at the same time immeasurable - both at home and in distant nations. There is no fast-track solution to the unfair and tragic loss of innocent lives, whether in a natural disaster, a heinous act of terrorism, or the sinking of a boat full of those fleeing the nightmare that once was their safety, their home.

What we do know is that sharing, debating, and measuring the obstacles Europe faces is a crucial and immediate step forward. We need to do so in a safe environment where we remind ourselves of the ideas and ideals that brought us together, and a space far more potent than the forces that pull us apart.

In the knowledge that the Pontignano Conference is precisely that space, we look forward to discussing the future we want for ourselves and, more so than ever, for the younger generations we are tasked with protecting and empowering.

Enrico Letta
Dean Paris School of International
Affairs Sciences Po
and former Italian Prime Minister

CONCEPT NOTE

Change propels us forward faster than ever. We live in an age of constant transformation. Elected politicians and institutions are struggling to influence what is happening around them.

Technologies are converging in a digital revolution that is changing our working lives. This can bring hope, make life easier, create innovation and growth. However, it also brings with it uncertainty and risks which need to be understood and managed. In this highly networked society, immigration is leading to both a humanitarian and an identity crisis for the EU, with cherished ideals such as Schengen and free movement under risk. Yet immigration enriches and nourishes integrated societies.

Despite the global economy being hyper-connected, some see in Europe a rapid disintegration of the institutional constructions of the last century; and increasing polarisation of opinion within countries. What we are experiencing now is something that will transform our continent. Who owns and who directs this change?

Amidst these forces, with their hopes and fears, is a sense that existing tools are no longer up to the task of governing and forecasting likely future scenarios. And among citizens there is a sense of mistrust

and lack of control. Populism is on the rise. The digital revolution may be both cause and cure but this implies a greater need to reclaim ownership of our future. But what society do we want for the future? How far can we control it? What does this mean for the UK and Italy and what can we learn from one another?

1) Immigration and Integration

The confluence of migration, integration and technology has enormous impact on cohesion in our societies. Whilst immigration is a source of economic growth, and can enrich and nourish society there is a sense it is out of control. Does the answer lie in becoming one cultural melting pot? How can we ensure this confluence becomes a virtuous circle and not a descent into a divisive future?

2) Terrorism

Countering radicalisation has often seemed the key to understanding, and preventing, modern terrorism. Whilst Daesh use social media and instant news as weapon and recruitment, the same technology can also build resilience to extremism and its propaganda. What is the hierarchy of threats that Italy and the UK face and how does technology and the encryption debate affect our ability to protect our societies? Can our responses make our societies less vulnerable and more open?

3) Inequality

Technology is increasing productivity but there is frustration that the gains are not well distributed. We are witnessing the decline of the “middle class” and of the “centre” as the place where elections are won. Moreover, although the digital economy is here, many are untrained for it and remain unproductive, while too many digital jobs are left vacant. Have our political and educational systems been left behind by the reach of technology? How can technology and data help reverse inequality, also between generations?

4) Technology

The social, moral and legal scaffolding of the digital world has not yet been established but it is clear that its reach and influence is pervasive. It is defining how future cities will be built, cars will drive, schools will teach: the digital or ‘4th’ industrial revolution is upon us. But with technology so pervasive, where does real power lie? How can we proactively define what kind of a digital world we want rather than remake in cyber-space all the same mistakes we made in the physical realm during industrial revolutions ‘1 to 3’.



ORGANISERS



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Via di San Sebastianello 16
00187 Rome
T +39 06 478141
F +39 06 4814296
www.britishcouncil.it
Twitter @itBritish



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- building the UK's prosperity by increasing exports and investment, opening markets, ensuring access to resources, and promoting
- sustainable global growth supporting British nationals around the world through modern and efficient consular services

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Via XX Settembre 80a
00187 Rome
T +39 06 42200001
F +39 06 42202333
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The University of Siena offers its students opportunities to study and participate in work experience abroad, through specific mobility agreements with countries around the world. One of the key elements for the University's future scientific and cultural development is its promotion of environmental, social and economic sustainability through teaching, research, training and interaction with businesses and institutions.

The University's Rector is Professor Angelo Riccaboni.

Università di Siena

Via Banchi di Sotto 55
53100 SIENA
T +39 0577 232206
F +39 0577 232202
www.unisi.it



St Antony's College
Oxford

St Antony's College was founded in 1950 as the result of the gift of Antonin Besse of Aden, a merchant of French descent. Its role was "to be a centre of advanced study and research in the fields of modern international history, philosophy, economics and politics and to provide an international centre within the University where graduate students from all over the world can live and work together in close contact with senior members of the University who are specialists in their fields".

The College opened its doors to its first students in Michaelmas Term 1950 and received its Royal Charter on 1st April 1953. A Supplementary Charter in 1962 was granted to allow the College to admit women as well as men and in 1963 the College was made a full member of the University of Oxford.

The College's fifth Warden, Professor Margaret MacMillan, took office in July 2007. Before becoming Warden she was Provost of Trinity College and professor of History at the University of Toronto, and she was a student at the College. She has published extensively, most recently with History's People: Personalities and the Past.

St Antony's College

OXFORD OX2 6JF
T +44 1865 284700
F +44 1865 274526
www.sant.ox.ac.uk



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On 1 January 2016, the Company transformed from a financial holding company to a single, integrated industrial entity, that absorbed the activities of AgustaWestland, Alenia Aermacchi, Selex ES, OTO Melara and WASS.

On 28 April 2016, the Company changed its name to Leonardo. The new name is inspired by Leonardo da Vinci, the Italian genius who belongs to humanity, a universally recognised symbol of creativity and innovation.

The Company operates through seven Divisions (Helicopters, Aircraft, Aerostructures, Airborne & Space Systems, Land & Naval Defence Electronics, Defence Systems, Security & Information Systems). Leonardo-Finmeccanica also retains Parent Company and Corporate Centre functions for the following subsidiaries and joint ventures: DRS Technologies (defence products, services and integrated support), Telespazio and Thales Alenia Space (satellite services and space manufacture), MBDA (missile systems), and ATR (regional aircraft). Leonardo-Finmeccanica builds its competitiveness and success on continuous innovation and a customer-focused culture, supporting the entire lifecycle of its products, systems, and services.

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PARTNERS



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SPECIAL THANKS



THE PONTIGNANO TEAM

Paul Sellers

Director British Council Italy
T + 39 0647814225

Stephen Benians

Director Programmes
British Council
T +39 06 47814235
M +39 335 5304045

Filomena Casamassa

Pontignano Conference Manager
British Council
T +39 06 47814207
M +39 348 3841910

Ludovica Bonelli

Pontignano Assistant
British Council
T +39 06 47814206

PRESS OFFICE

Pierluigi Puglia

Head of Press & Communications
British Embassy Rome
T +39 06 42202296
M +39 335 7516845

ORGANISING SECRETARIAT

Antonella Ferraro

Project Leader
AIM Group International
T +39 06 33053334

Valentina Sicari

Project Assistant
AIM Group International
T +39 06 33053317

USEFUL INFORMATION

CONFERENCE VENUE

Certosa di Pontignano.

Pontignano is about 10 Km outside Siena to the north east, off the via Chiantigiana (the road to Monteverco, SS 408). From this road a smaller lane, signposted to the Certosa di Pontignano, leads off to the left in Ponte a Bozzone. The Certosa di Pontignano is about 2 Km from the turning.

HOTEL ACCOMMODATION

Certosa di Pontignano

NH Excelsior Hotel

The NH Excelsior Hotel is in the town centre, a 10 minute walk from Piazza del Campo.

PRACTICAL MATTERS

Car parking

The Certosa has a free car parking space.

Internet access

Wi-Fi internet access is free to all delegates and can be accessed throughout the Certosa

Taxis

Taxis can be ordered by speaking to British Council staff

Catering

Vegetarian options are available. If you have included other dietary requirements on your registration, please make yourself known to the catering or conference staff.

Disabled access

There is disabled access to the Sala Bracci, Sala Chianti and Sala Caminetto. For mobility assistance, please speak to a member of the event staff or call them on the numbers listed on page 12.

CONFERENCE LOCATIONS

● Certosa di Pontignano

Loc. Pontignano, 5
53019 Castelnuovo
Berardenga (Siena)
T +39 05771521104
F +39 0577354777
www.lacertosadipontignano.com

● Università di Siena

via Banchi di Sotto 55
53100 Siena ITALY
T +39 0577 232111
www.unisi.it

● NH Excelsior Hotel

Piazza La Lizza
53100 Siena
T +39 0577382111
F +39 0577382112
www.nh-hotels.it/hotel/nh-excelsior

THURSDAY DINNER

● Palazzo Pubblico

Sala delle Lupe
Piazza del Campo
53100 Siena

THE PONTIGNANO DATA

The following text presents some facts, figures, charts, tables and commentary related to the theme of the 2016 Pontignano conference: Who Owns the Future? As usual the conference will include four workshops, and the data and charts are roughly grouped to try to relate to the topics being considered by each workshop. It is as ever necessary to repeat the caveats that figures and data should be treated with caution as, even when drawn from reputable international sources, numbers are selective and not always comparable. The aim is to stimulate thought and discussion throughout the conference. Please note too that the text and supporting material were mostly drawn up in early July 2016, ie shortly after the Brexit referendum and a change in Britain's government.

John Peet
Political Editor, The Economist, London



Table 1

Key economic comparisons, 2016

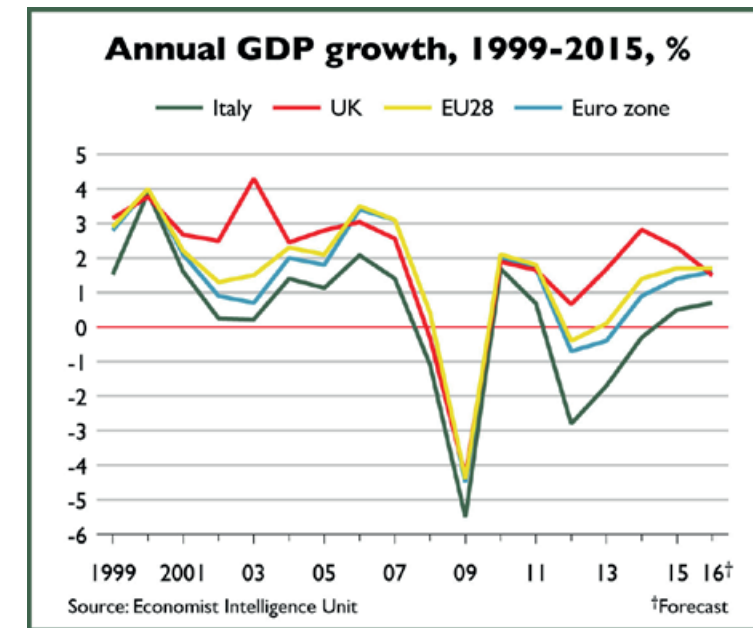
	Italy	UK	EU28	Euro zone
Population, million	59.8	64.9	506.8	336.9
GDP (US\$ billion)	1,775	2,780	16,023	11,514
GDP per head (US\$ at PPP)	37,690	42,830	39,430	41,870
GDP per head (US\$ at market rates)	30,450	38,240	32,190	33,310
Inflation, %	0.1	0.5	0.2	0.1
Unemployment rate, %	11.3	5.1	8.9	10.0

Source: Economist Intelligence Unit

We start with some basic comparisons between Italy and the United Kingdom. In macro terms, the two countries are comparable, with similar populations, similar average incomes and a similar recent economic performance. Both countries have grown slowly since the financial crash of 2008-09, especially in terms of GDP per head. But in the past three years their paths have notably diverged. As David Cameron, the former British prime minister, became fond of saying during and after the May 2015 general election, the UK economy has recently been the fastest-growing among the G7 big countries and of the main European Union members. Italy, on the other hand, has continued to perform relatively badly in terms of economic growth. British GDP per head in both market prices and at purchasing-power parity is now well above the average for both the European Union 28 and the euro zone. Italian GDP per head, in contrast, is below the average on both counts.

The picture has changed significantly this year, however. Largely because of uncertainty over the Brexit referendum, the British economy has slowed sharply just as the euro zone seemed belatedly to be recovering. As of mid-2016, it seemed that Italy's GDP and GDP per head might both be growing as fast or faster than Britain's for the first time in over 20 years: the UK is expected by many to fall into recession. The UK has recently also had persistently higher inflation than most of the euro zone, including Italy, although in the past two years inflation has been exceptionally low in both countries as Europe has been teetering on the brink of deflation. But Italian unemployment, especially among young people, has generally been much higher than British unemployment. Indeed, until the latest slowdown that seems primarily linked to the Brexit vote, unemployment in Britain was running at a record low level and the employment rate was exceptionally high – and in both cases these figures are much better than Italy's.

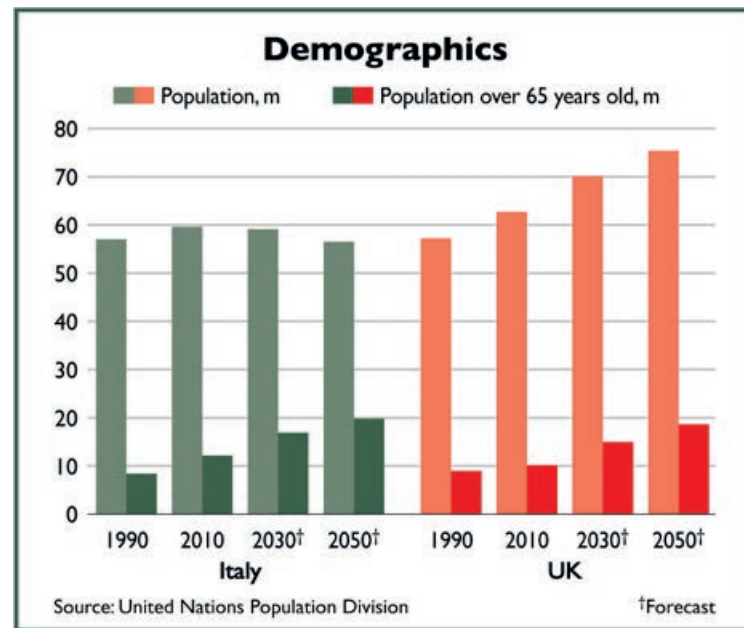
Chart 2



In overall growth since the euro began life in 1999, there is still a marked difference between Italy and the UK. In only five of the past 20 years has the UK grown more slowly than the EU average. Italy, on the other hand, has not grown faster than the EU average in any of the past 20 years. Neither country has a stellar record of growth over the past two decades, and both have poor figures for productivity growth, in particular. But Italy's slower growth still stands out. No big developed country has recorded a worse growth performance, whether of GDP, GDP per head or labour productivity, during the past two decades. That the Italian economy is today barely bigger than it was when the euro began must surely be a big reason why disenchantment with the EU and the euro has grown.

The two countries have similar demographics: the UK population is almost 65m to Italy's 60m. But their age structure and outlook are quite different. Over a fifth of the Italian population is over 65, compared with less than a sixth of the British population. And Italy's population is no longer growing; indeed, it has started to shrink. In 2030, there are expected to be almost 70m people in the UK to Italy's 59m, and Italy will have a proportionally much older population. By 2050 the UK and France are likely to have the largest populations in Europe (though Britain may no longer be in the EU). The main reasons are a higher birth rate and higher immigration. It will be interesting to see whether and how Brexit affects these trends.

Chart 3



Income per head and population size are, of course, not the only influences on social indicators or quality of life. By many other measures Italians seem to have living standards at least as high or even higher than Britons. Crime is worse in Britain, which also has a much bigger prison population. Drug

and alcohol abuse are more prevalent. Life expectancy is slightly lower in Britain than in Italy. The divorce rate is also much higher; one result is that almost a quarter of children in Britain now grow up in single-parent households, twice as many as in Italy. Almost half of British babies are born out of wedlock.

Table 4

Families

	Divorce rate per 1,000 population, 2012	Birth rate per 1,000 population, 2014	Live births outside marriage % of all live births, 2014	Single parent households % of households with children, 2015
Italy	0.9	8.3	28.8	9.3
UK	2.0	12.0	47.5	22.7

Source: Eurostat

In both countries living standards have been under pressure from recent recessions. Relatively higher inflation in Britain has cut real incomes, as has relatively slower GDP growth in Italy. In both countries young people find it hard to get a job or on to the property ladder, so that more now live

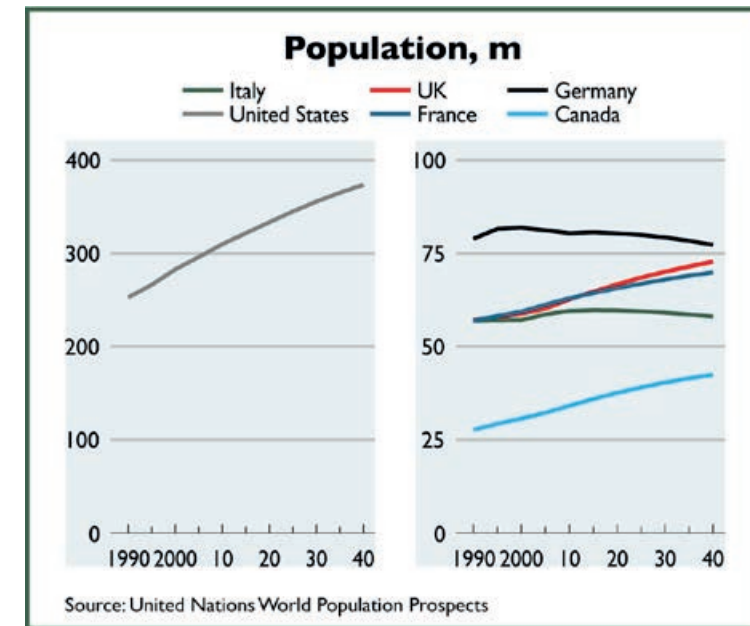
for longer with their parents. House prices continue to be a big preoccupation in big cities, notably Rome and London, with the rate of owner occupation now falling – though in London, at least, the Brexit referendum seems to have comprehensively burst an incipient property bubble.

WORKSHOP ONE
IMMIGRATION AND INTEGRATION

A French philosopher reputedly declared that “demography is destiny”. In his context, this referred particularly to warfare, since for much of its history France feared that the faster-growing population of Germany was a direct threat. In today’s European Union, however, it has two different implications.

First, many European countries have ageing and in some cases (including Italy) shrinking populations, which poses obvious economic challenges. And second, immigration, which is in many respects a way to offset these ageing and shrinking populations, raises social problems of its own.

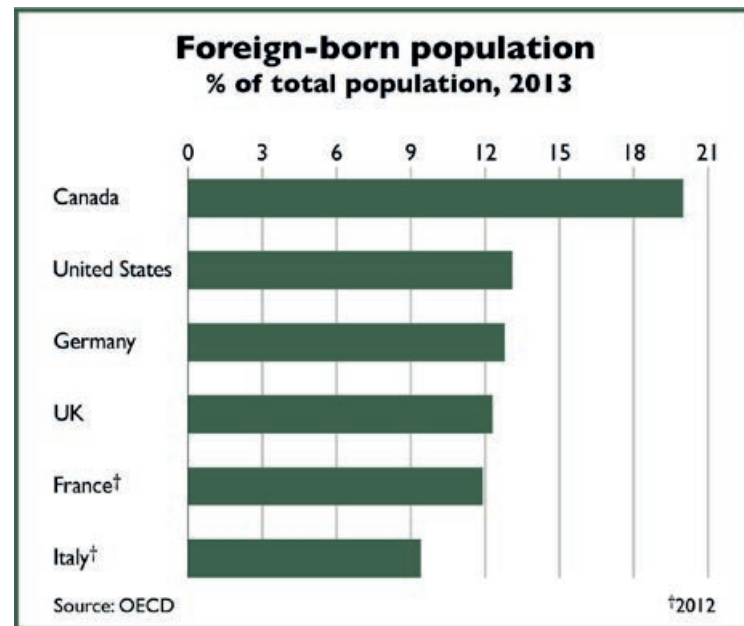
Chart 5



The overall population of the main members of the European Union has more or less flattened out. In Germany, Italy, much of the rest of southern Europe and also in eastern Europe, population is now falling; in France, Britain and much of the rest of northern Europe it is rising, but slowly. Looking ahead to 2040, Britain is expected to catch up and, shortly thereafter, overtake Germany

as Europe’s biggest country by population. Britain’s population will then be almost 73m; Italy’s will have fallen to 58m. And Europe will have lost weight in the world. The United States will have 374m people, and will at some point overtake Europe’s total. Europe’s share of global population will have fallen from 11.8% in 2000 to 7.3% by 2050.

Chart 6



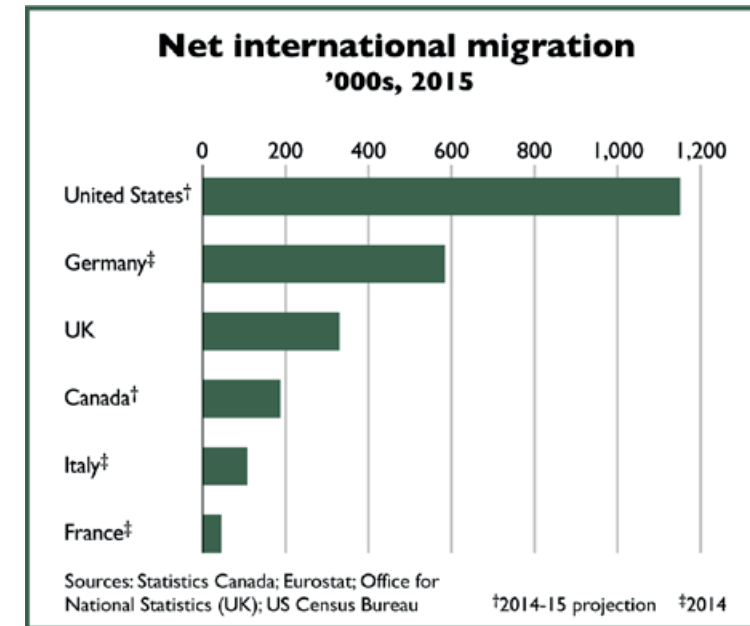
Although immigration is today a huge political issue in many European Union countries, it is often higher elsewhere. Australia, Canada and the United States, for example, all have a higher foreign-born share of their populations than most EU countries. Within Europe, so does Switzerland. Even so, immigration has moved steadily up the political agenda in many countries, including Italy and the UK. The rise in support for the Northern League in Italy, for the UK Independence Party and for the National Front in France is strongly correlated with rising hostility to immigration. It is also widely cited as the single biggest factor behind the British electorate's decision to vote for Brexit on June 23rd.

Anti-immigration feelings tend, however, to conflate several different issues. In Britain, the concern seems to have been mainly over numbers. Every year since 2010 and again in 2015, David Cameron's government pledged to reduce net immigration to the "tens of thousands", yet as the British economy recovered from recession after 2012 and began creating millions of new jobs, that pledge became impossible to fulfil. Even excluding EU migration, the numbers coming into Britain every year have consistently been

well over target. Brexiteers focused their campaign heavily on the claim that Britain had no control at all over net migration from the EU, which has also in recent years been way over the target (though it is worth noting that EU migration has never accounted for as much as half of total NET immigration into Britain, which has been running at between 300,000 and 400,000 a year).

Elsewhere in Europe, the bigger concern has not been about numbers or about migrants from the rest of the EU, but rather about the influx of refugees and asylum-seekers, many of them from Syria, Afghanistan and sub-Saharan Africa. After Angela Merkel pledged to offer asylum to all refugees from Syria in August 2015, hundreds of thousands made their way across the Aegean and through the Balkans to Germany, prompting a quick reversal of policy and, later, a bilateral deal with Turkey to reduce the influx. But that deal has prompted an upsurge in refugees fleeing across the Mediterranean from Libya, meaning that the political and social problem of dealing with thousands of would-be refugees in unseaworthy inflatables has simply shifted from Greece to Italy.

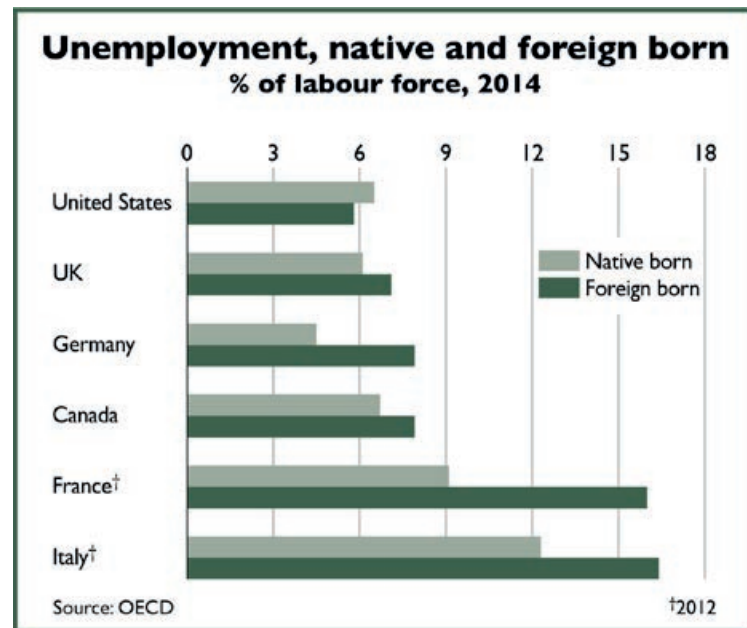
Chart 7



The increase in refugees and asylum-seekers in Europe has put immense strain on two of the EU's institutional responses to migration: the Schengen passport-free travel zone and the Dublin convention on asylum. On the first, several countries have now reintroduced passport controls at their borders, which they maintain are only temporary (but remember another French saying, that it is only the temporary that lasts forever). On the second, the principle that asylum-seekers must apply in the first EU country they reach has clearly become untenable since it puts all the burden on countries like Greece and Italy. Both Schengen and Dublin have been harder to adhere to since several countries in eastern Europe, notably Hungary, the Czech Republic and Poland, have refused to accept a fair share of refugees and in some cases any refugees at all.

The biggest social problems around immigration are different, however. A recent Pew global attitudes survey found that Europeans feared that a wave of refugees would mean more terrorism and fewer jobs. The terrorism threat is a matter for workshop two. But the Pew survey found that half of the population believed that a big influx of refugees would take away their jobs and their welfare benefits.

Chart 8



Many popular perceptions of the economic consequences of immigration are fallacious. Repeated studies in Britain and elsewhere have drawn three main conclusions that run counter to what many natives believe. The first is that immigration brings economic gains, not just in GDP but in GDP per head. Second, immigrants do not reduce employment among the native-born: the jobs they fill are more often ones that the native population refuses to do, and their economic input to receiving countries tends to generate more not fewer jobs overall. And third, because immigrants tend to be young, they are net contributors to and not net recipients from EU countries' welfare systems. What may be more accurate is that immigrants tend to have a slightly higher chance of being unemployed, though this is truer in France and Italy than in the UK or the United States; and that, in certain sectors such as building and construction, an influx of immigrants may have held down wages slightly, though the effect seems to be quite small.

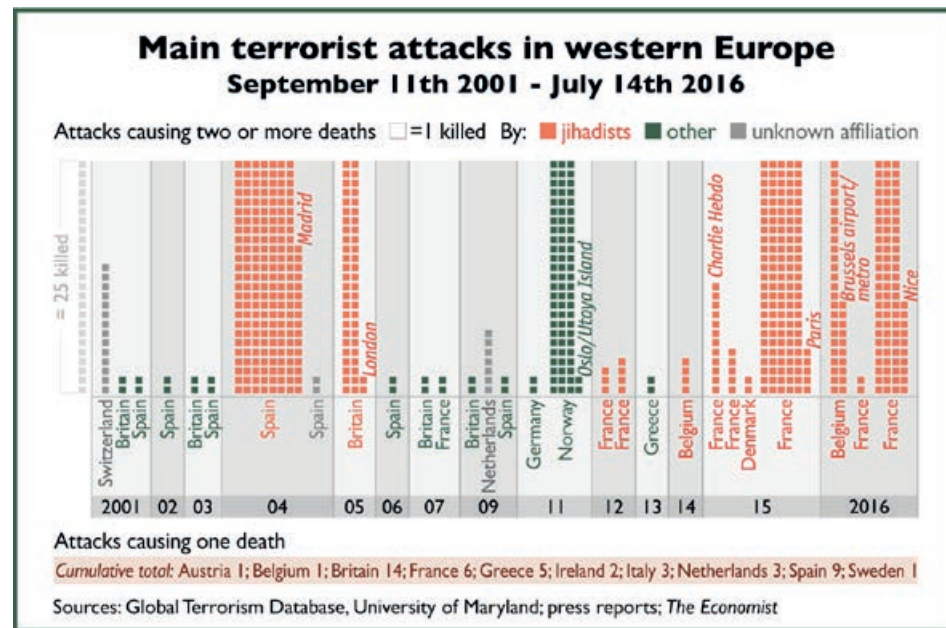
In many countries, moreover, immigrants are often better-educated than the native population. In Britain, for example, only 32% of the native population have tertiary education, compared with around 54% of the foreign-born population. The gap is smaller in Italy. But the fact that it exists suggests that in several EU countries, even ones that do not explicitly operate a "points" system that favours incomers with better education, immigration is providing an additional boost to the quality of the workforce.

WORKSHOP TWO TERRORISM

As discussed above, worries about immigration, refugees and asylum-seekers across Europe have become closely bound up with fears of terrorism. As the wars in Iraq and, especially, Syria have continued and even expanded over the past few years, so-called Islamic State (or Daesh) has also taken root.

And since Western air and limited ground forces have intervened in both countries, and perhaps also as IS has been forced back in both, jihadist fighters have taken up the planning and execution of terrorist attacks in western Europe.

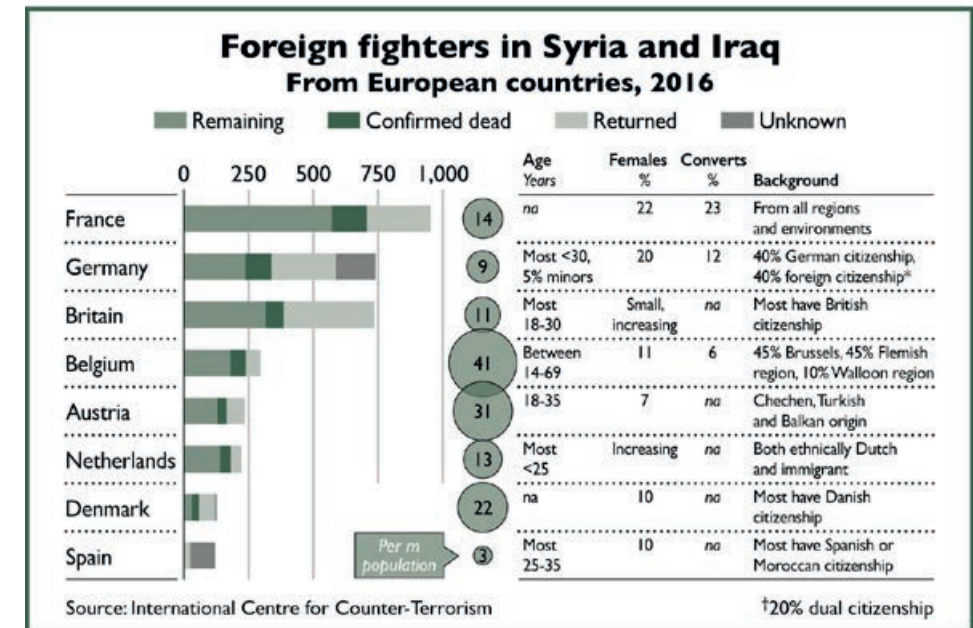
Chart 9



The perception that terrorism in general is on the rise may not be correct, however. Britain, for example, has experienced far fewer terrorist attacks in the past decade than it did from the 1970s to the 1990s, when the Irish Republican Army was most active. Italy's Red Brigades era is fortunately over, as is Spain's experience with the Basque terrorist group ETA and Germany's with the Baader-Meinhof gang. Yet Islamic State, or IS-inspired, terrorism has occasionally been responsible for particularly large-scale and extensive attacks, such as the Paris and Brussels co-ordinated bombings and the Nice truck attack on July 14th. So far no attack in Europe has killed as many people as 9/11 in the United States 15 years ago. But the cumulative effect has been to maintain states of emergency and step up counter-terrorism efforts.

One important part of this is to do more to counter the sources of terrorism on the ground. Western intervention in Iraq and Syria is intended partly to break IS's control of territory so as to make it harder to plan terrorist attacks in Europe, just as America's intervention in Afghanistan in 2001 was aimed at uprooting Osama bin Laden's al-Qaeda group. But another goal is to counter radicalisation within European countries, since many of the worst terrorist incidents have been perpetrated by disaffected homegrown Muslims.

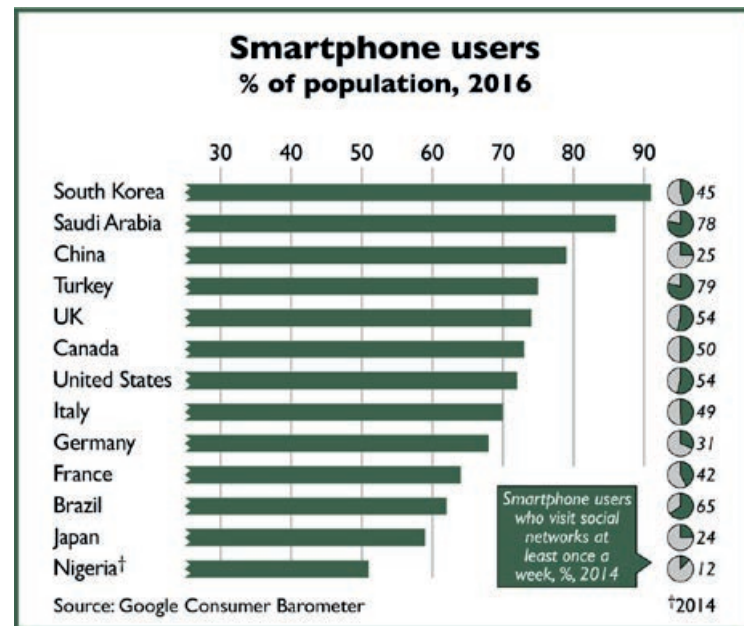
Chart 10



A key contributor to such homegrown terrorism comes from Muslim jihadist fighters who have gone to fight for IS in Iraq and Syria, been radicalised and trained, and then returned home. The pattern of such native jihadists roughly corresponds to the weight of Muslims in the population. Thus France, Germany and Britain have been the countries that have seen most jihadist fighters go to the Middle East, though as a share of population Belgium and Austria have been even bigger contributors. The

Belgian case was especially brought home by the Paris attacks in November 2015, which seem to have been largely planned and co-ordinated from Brussels. It was widely believed that, whereas the French and British security services have been quite effective at detecting and foiling plots by would-be jihadists, their Belgian counterparts have been less good, in part because the Belgian state is carved up into so many lower tiers of government, down to the communal level.

Chart 11



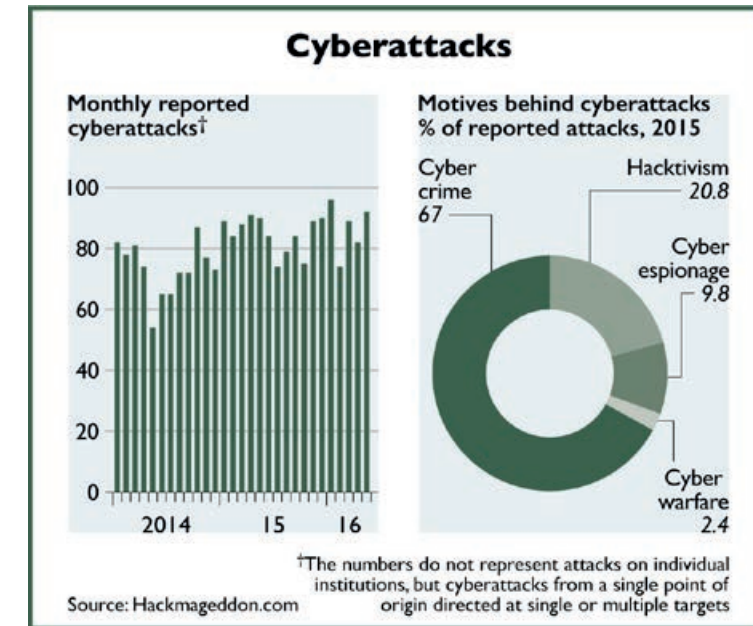
Another feature of today's terrorism, especially that perpetrated by groups like IS, is the extensive use of social media, both to communicate and to spread propaganda. The growth of social media and the ubiquitous presence of smartphones has had a huge impact on societies in general (including on the traditional print media). It is striking how quickly refugees and would-be asylum-seekers have been able to learn of the best routes to take into Europe, which border controls are easiest to avoid and where they should make for: their smartphones have often been their most important possessions.

The impact of social media has been especially seen in the hands of terrorist groups like IS. The terrorists have used Facebook and other platforms as a window to showcase their most horrific acts, such as beheadings and bombings. This has not only spread terror, especially in Syrian and Iraqi towns and villages where they have been most active, but also proved an effective tool for recruiting more jihadist fighters both at home and abroad. The entire business of counterterrorism in western Europe has performed had to focus much of its activity

on social media. Keeping up monitoring and countering plots can be hard to reconcile with a free and open society, however.

There has also long been a debate about the relative merits of assimilation and multiculturalism when it comes to integrating Muslims into Western societies. France was said to epitomise the first, with its fierce insistence on secularism in state institutions, its ban on the Muslim veil in schools and its refusal even to collect statistics on ethnic and religious minorities. Britain, which collects much data but has traditionally been more tolerant of religious practices, has not tried to ban the veil and has not monitored preaching in mosques, stood for the second. In practice the two approaches have now converged somewhat, with more active efforts in Britain to integrate Muslims into society, while France has become more tolerant. But perhaps the most effective way to counter radicalism among Muslim populations is to give them a greater economic stake by ensuring that there is full or near-full employment, something Britain has tended to do better than most of continental Europe.

Chart 12



A final technological aspect of modern terrorism is the direct assaults via the internet in the form of cyberattacks. Statistics on these are hard to find, but the evidence is that they have grown, though less rapidly than the internet itself. It also seems clear that most cyberattacks are motivated by

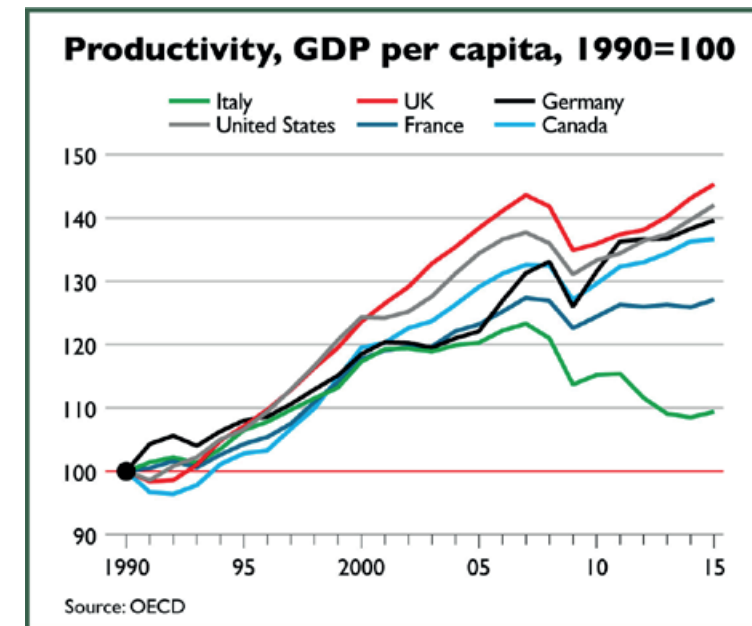
and carried out by criminals rather than by rogue states or terrorist groups. Many cyberattacks from places like Nigeria and Russia are designed simply to steal money. Nevertheless there has been some interest in cyberterrorism, yet another area for security forces to monitor.

WORKSHOP THREE INEQUALITY

It has often been said that, although technology, globalisation and free trade have boosted economies all round the world and made most people much richer than they were, not everybody has benefited. Productivity growth has in fact been relatively low in recent years compared with the period up to the 1970s, and several countries have

recovered only very slowly from the 2008 global financial crisis (Italy is not the only euro-zone country where GDP per head remains lower than it was then). But one thing is clear: that inequality has increased substantially and that those at the bottom of the heap seem to have done particularly badly in the past two decades.

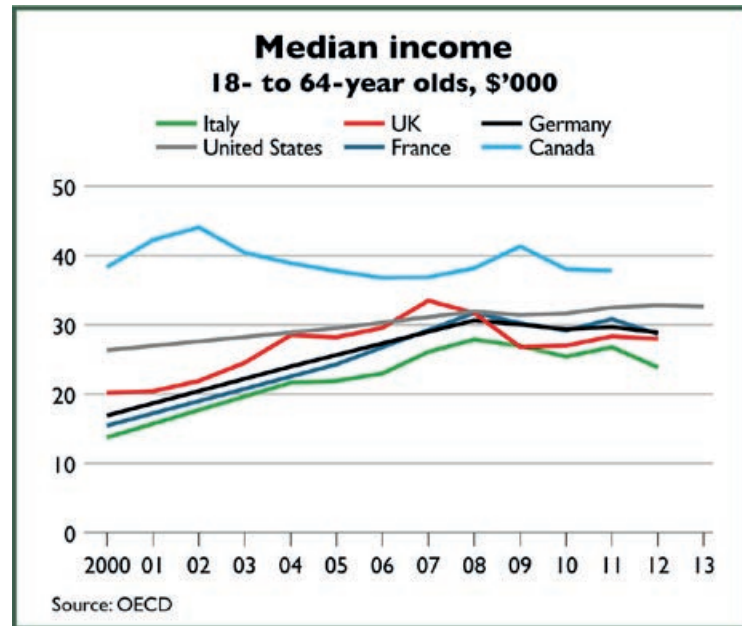
Chart 13



As the economist Paul Krugman once put it, productivity isn't everything, but in the long run it is almost everything. A big reason for Italy's recent poor economic performance has been its declining productivity: GDP per head has actually fallen for much of the past decade, and it is now lower than it was when the euro began in 1999. Britain, in contrast, has a much better recent productivity record. But even in Britain the impact of the 2008 financial crisis has been large: it took six years to regain the pre-crisis level of GDP per head.

Yet what is most striking about productivity is how its growth has declined in almost all advanced economies. Despite the technological and computer revolutions of the past two decades, productivity growth has been much slower than it was in the decades after the second world war. This has led some economists, notably Robert Gordon, to hypothesise that the rapid growth rates of Western economies after about 1870 may have been an exception not the rule, meaning that we can now expect much slower growth in future. Mr Gordon has calculated that American productivity per hour rose by an average of 2.82% a year between 1920 and 1970, but only 1.62% a year between 1970 and 2014. The gap may seem small, but over a long period it matters a lot for the future. Paying for welfare, pensions, health care and other social programmes that are likely to get ever more costly as our societies age will be made much harder by relatively slower productivity growth.

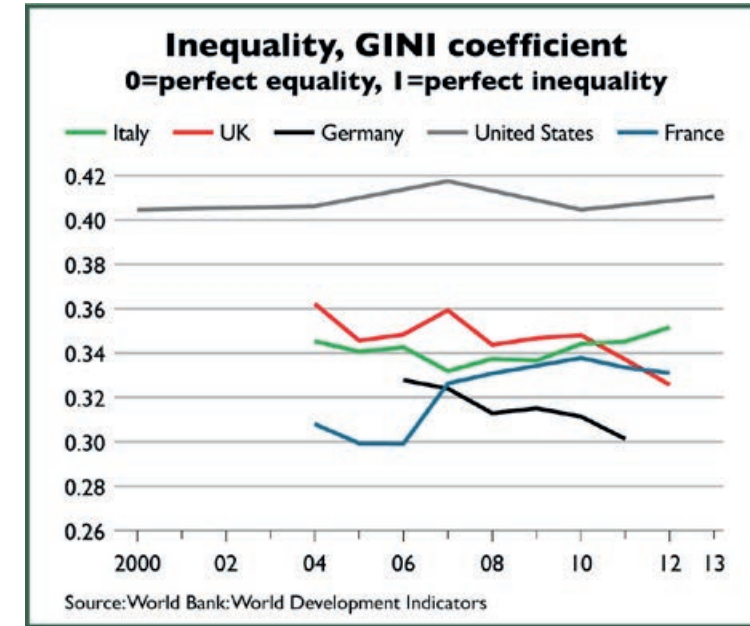
Chart 14



What makes things much tougher for many is that slower growth and the financial crisis have coincided also with rising inequality. One result of putting these three together is that median wages have been stagnant or very slow-growing almost everywhere. As so often, America has led the way here: real median wages have barely increased in the past two decades, even though US productivity growth has been stronger than in Europe. In many ways the group that has suffered most has been the middle class, not the richest or the poorest, not least because some of the things that the middle classes spend most on, such as property, education and health care, have risen in price far more than the average.

The stagnation of median wages and the rise of inequality have had an obvious political impact as well. The victory for the Brexit side in Britain's EU referendum was driven especially by a strong Leave vote from poorer areas of northern and eastern England, where real wages have stagnated. The belief that many such voters have seems to be that it is places like London, Oxford, Cambridge and Manchester that have done best out of globalisation and free trade (these areas also voted most heavily for the Remain side); while the rest of the country has been left behind, and duly voted strongly for Leave. The rise in Italy of the Northern League and to some extent the Five Star Movement seems similarly to have been driven especially by people who feel they have been losers not winners from the EU, the euro and free trade with China.

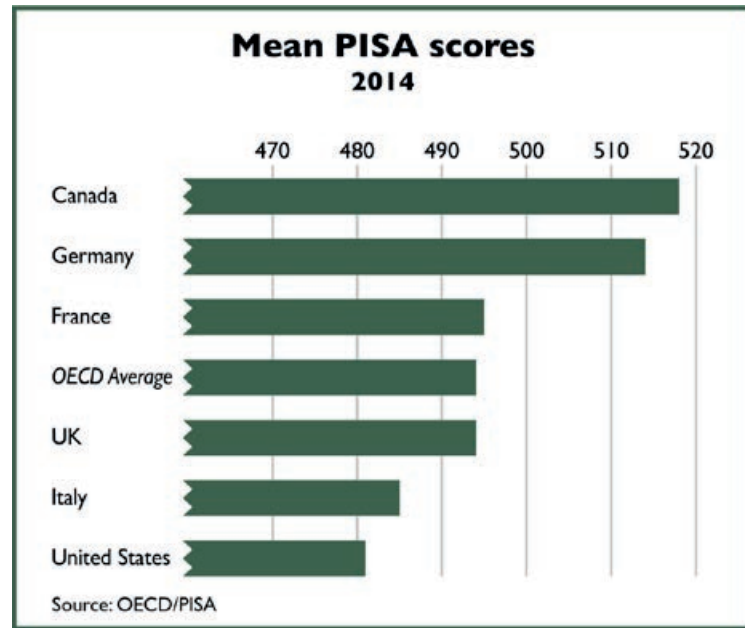
Chart 15



As it happens, the standard measure of inequality (the Gini coefficient) has not risen much in recent years in most countries, and it has even declined in Germany and, post-crisis, in Britain. But it has risen in France and Italy and it is much higher in the US. Data gaps and inconsistencies may be part

of the explanation: the Gini coefficient may not capture the especially rapid rise in the incomes of the richest 1% of our societies. Such figures as do exist suggest that inequality is now greater than it was in the 1970s in most developed economies.

Chart 16



A final point concerns the effectiveness of education, since one answer to low productivity growth and to inequality is to increase human capital by improving education. In most countries, including Britain and Italy, the share of the population that has some tertiary education has increased

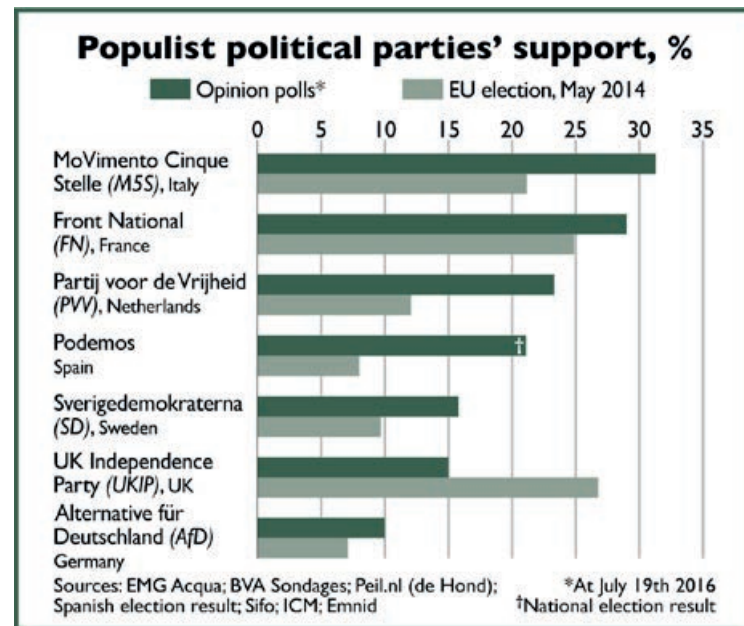
significantly. But the performance of school systems remains an issue. According to the OECD's PISA evaluations of education, both Britain and Italy come below the average, although both do better than America. Canada comes out near the top among G7 countries, but Finland does even better.

**WORKSHOP FOUR
TECHNOLOGY**

Talk of a fourth industrial revolution has become so common that it is sometimes assumed to have happened already. Yet although the internet has become ubiquitous and artificial intelligence is progressing in leaps and bounds, the economic impact is

often harder to discern. Similarly, the political and social consequences of the supposed fourth industrial revolution are hard to disentangle from other changes that may be going on at the same time.

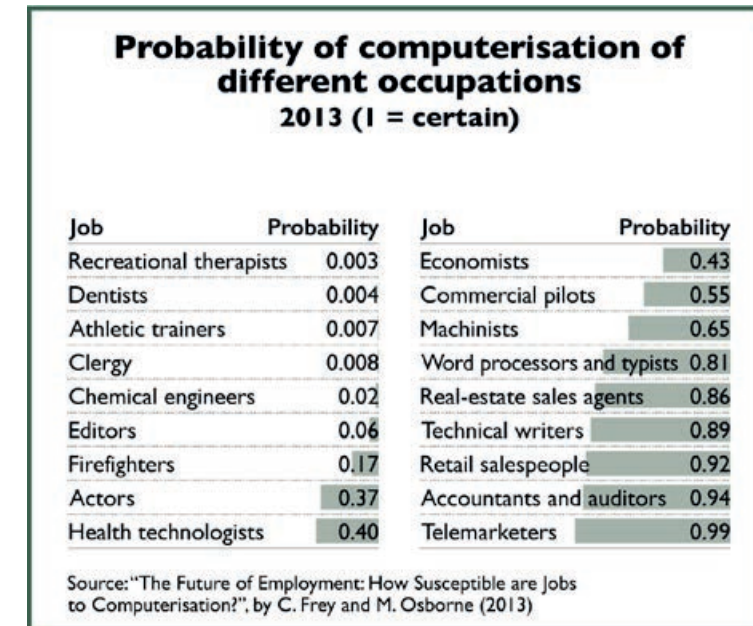
Chart 17



One phenomenon that is at least in part connected to technological change is the rapid rise of populist political parties across western Europe, in two different ways. One is that social media and the digital revolution have made it easier to set up political movements and parties: the Five Star movement, Alternative for Germany and similar parties would have been much harder to establish in the past. The proliferation of political parties around Europe is making the business of forming stable governments trickier than it was. And in a digital age, voters are keener on referendums: the spread of direct democracy at the expense of representative democracy, as seen in the Brexit vote, may have become unstoppable.

Second, the digital revolution has a clear link to the feelings of many that there have not been only winners from globalisation and technological change, but also losers. The losers are especially susceptible to the appeal of populists. The Brexit referendum and the rise of UKIP were clear evidence of this phenomenon. The rise of Marine Le Pen in France, Geert Wilders in the Netherlands and Beppe Grillo's party in Italy can also be linked to it, as can the phenomenon of Donald Trump in the American presidential election.

Chart 18



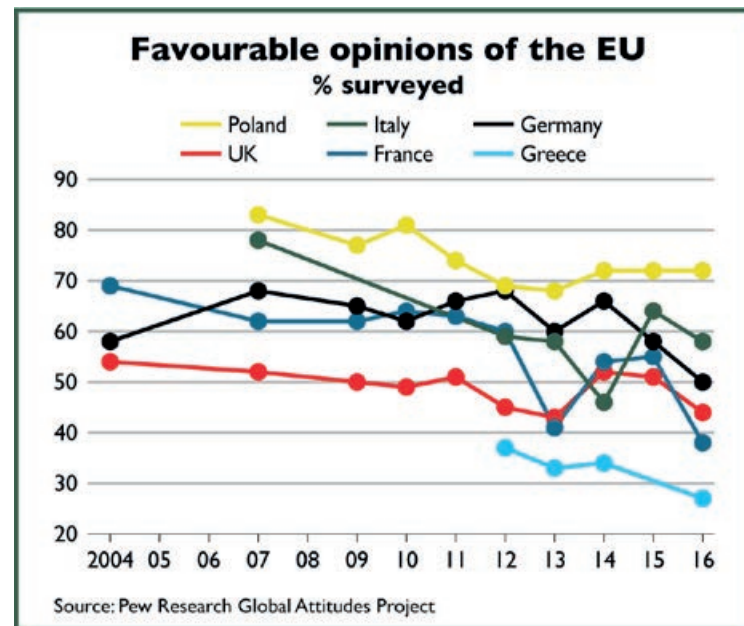
An old favourite reason for fear of new technology has acquired a new lease of life with the growth of artificial intelligence: that it may take away jobs. This line of thinking goes back at least as far as the Luddites who attacked textile machines in Britain in the late 18th and early 19th centuries because they believed the machines would put them all out of work. Since the first industrial revolution, there have always been trade unions and other employee groups that have resisted change and new ways of working out of fear for labourers' jobs and incomes.

Now computerisation seems to threaten almost everybody. Earlier this year a computer was at last able to defeat the world's best player of the oriental game Go, which despite appearing deceptively simple is actually far more complex than chess. This marked another step forward for artificial intelligence. Some commentators

now predict that computers and artificial intelligence could lay waste whole swathes of workers, including accountants, typists, salesmen and shop assistants and even pilots, train drivers and economists. Only people like clergymen and dentists cannot be replaced by machines, it seems.

That such fears have been proved wrong before is one reason to think they may be proved wrong again. Jobs that have been mechanised have produced a situation where other newer jobs are created, and that is likely to happen again. Yet it is also the case that just because the Luddites were wrong does not prove they will always be wrong in future. What everyone should be able to agree on is the urgent need for better training and education, since a flexible and adaptable workforce is always likely to do better when it comes to responding to technological and economic change.

Chart 19



Since this edition of the Pontignano data is the first to appear after the Brexit referendum, it seems appropriate to finish with some comments on the future of the EU. As the new British government under Theresa May was quick to discover, there is a huge amount of thinking and negotiation to do before putting into effect any decision to leave an organisation that is as embedded in all our countries as the EU. Financial and personnel questions will have to be resolved, as will the issue of whether UK and EU nationals who have settled in other countries will be allowed to remain. The future trade and economic relationship of Britain and the EU may take years to sort out. A clear trade-off exists between erecting barriers to free movement of people, as anti-immigration voters want, and preserving so far as possible Britain's position in the EU's single market.

One thing that the Brexit vote may have done, at least, is to reverse for a time the steady decline in the EU's popularity with ordinary citizens. For some years now, much of Europe has been shifting towards euroscepticism. The latest Pew poll, taken before the Brexit vote, even found that France had a less favourable opinion of the EU than Britain did. Yet some surveys since suggest that voters in many countries have taken fright at the prospect that the Brexit vote could lead to an unravelling of the entire EU. Support for the EU seems to have risen almost everywhere since June 23rd, even in east European countries like Poland that had seemed to be moving sharply in a eurosceptic direction. It would be an irony for historians to appreciate if Britain's decision to walk away from the EU came to be seen as a turning point after which ordinary citizens in most EU countries, including Italy, suddenly found out how valuable the European project seemed.

THE PERSPECTIVES

LANGUAGE SKILLS IN A SHIFTING ECONOMY: FROM BUSINESS RISK TO KEY ASSET



A core part of the British Council's cultural relations mission is to improve and promote standards of English for companies, governments and educational institutions. With 80 years' experience providing English teaching and assessment, each year we administer 3 million exams and train over 300,000 people across 100 countries worldwide.

the increasing importance of English in the marketplace and the strategies and tools required to meet this challenge. To better develop our understanding of this topic, we worked with Euromonitor International to research the issue focusing on two primary objectives:

- to explore the key business areas where English skills are critical to success
- to measure the impact of poor English skills on profit.

From our ongoing conversation with partners and clients we observed a gap between

Governments, policymakers and the business community all agree that investing in people's skills is fundamental for an economy that needs to be flexible and adaptable to technological changes and constantly changing patterns of work. Many studies have proved that a more skilled workforce helps drive competitive economy and growth.

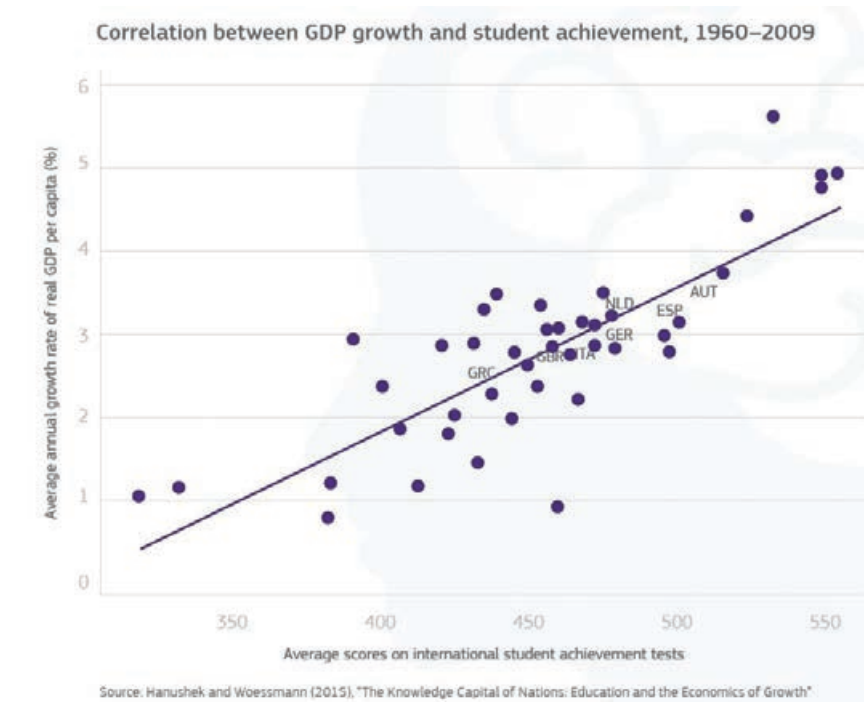


Figure 1 - Correlation between GDP growth and student achievement, 1960-2009, A NEW SKILLS AGENDA for Europe, Factsheet: Investing in skills (2016)

The EU Commission's A New Skills Agenda for Europe, released in 2016, reported that "At EU level, the policy focus on educational attainment has brought significant achievement". However, the report maintains that "Skills gaps and mismatches are striking.

Many people work in jobs that do not match their talents. At the same time, 40% of European employers have difficulty finding people with the skills they need to grow and innovate".

Basic skills attainment in Italy and EU-28

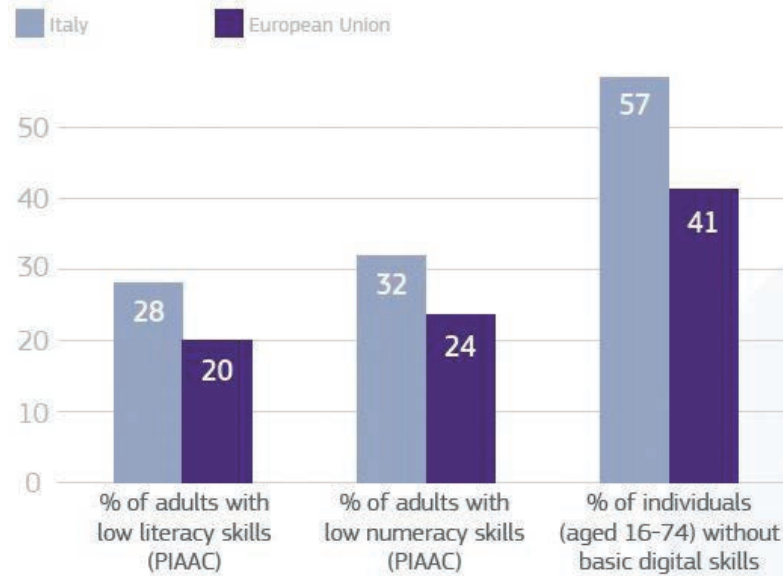


Figure 2 - Links between employment and skills in Italy and in EU-28, A NEW SKILLS AGENDA for Europe, Factsheet: Skills in Italy (2016)

The EU Commission's study points out that focusing on educational attainment only is not enough to reduce unemployment and job skills mismatch. In this scenario, it is clear that lifelong learning becomes crucial not only for those who are looking for a job but also for those who have already got a job but aspire for something better.

In order to tackle this problem, the EU Commission aims to rationalise the mare magnum of learning offers available to adults through three main interventions:

- a skills assessment, enabling low-qualified adults to identify their existing skills and their upskilling needs
- a learning offer, responding to the specific needs of individuals and of local labour markets
- opportunities to have their skills validated and recognised

In line with the European Commission's New Skills Agenda, the British Council worked with Euromonitor International to investigate the impact of English skills on business performance.

The respondents to this research were human resources managers and business leaders from large international companies

across diverse industries – from construction and automotive to travel and banking. They were asked to consider the added benefits of having high-level English-speaking employees and estimate the impact on their business results if they could not communicate well in English.

The results reinforced our understanding that English is not just a basic job requirement, but an essential tool that can significantly affect business performance. Despite this, many companies did not realise until interviewed that there are many hidden costs associated with poor English. Responding to this, the British Council developed a solution for business, called Aptis, an assessment tool that helps companies turn language skills from an area of risk into a business asset.

Download the complete research and discover how your business can tap the reservoir of improved language skills.



bit.ly/pontignano2016



bit.ly/pontignano2016en

INCOME INEQUALITY: IS SOCIAL ENTERPRISE THE SOLUTION?

In an era of pronounced economic and political uncertainty, governments and businesses are striving to prevent further instability. Reducing income inequality within and between states has become a key priority. And no wonder: a report by the United Nations Development Programme (UNDP)¹ concludes that income inequality is linked to higher crime rates, lower life expectancy, conflict and political instability. Moreover, the report finds, income inequality increases the frequency of financial crises, creating a vicious circle. A global IMF study links income inequality to a wide range of negative social outcomes and to slower and less durable growth.

In Italy and the UK, income inequality has remained stable or has fallen over the past 20 years in aggregate, but it has also become entrenched in certain areas and within certain segments of society, which have seen few benefits from globalisation. In the recent referendum in the UK, there was a correlation between votes to leave the EU and areas with prolonged high unemployment, lower tertiary education, and lower income levels.

What innovations can be brought to bear in areas of sustained stagnation? Social enterprises are one form of social innovation which is making a real impact exactly where social problems are most entrenched, as well as across the mainstream economy. Their success also points to new approaches in reducing income inequality at global levels.

Social enterprises are businesses that trade to tackle social problems, improve communities, people's life chances, or the environment. They make their money from selling goods and services, but reinvest their profits to support their social mission. When they profit, society profits.

Social enterprises reduce economic inequality in a number of ways. Firstly, many social enterprises develop products or services with the explicit aim of employing people who would otherwise struggle to find work, such as people with disabilities and ex-offenders. Secondly, social enterprises are more inclusive than other businesses. The latest UK findings show that 40% of social enterprise leaders are female, compared with 18% of small and medium enterprises (SMEs), and that 11% of social enterprise leaders are from minority ethnic backgrounds, compared with 7% of SMEs. Thirdly, social enterprises are more likely to operate in deprived communities than other businesses, creating jobs where they are most needed. Fourthly, social enterprises are developing innovative solutions that support urban regeneration.

For example, the iconic OXO Tower building in London is owned by a social enterprise, Coin Street, which in 1984 acquired this then derelict site and has transformed into a thriving neighbourhood by generating surplus from profitable land use (e.g. leasing to restaurants, organising festivals) and using that to offer affordable housing, childcare and other services to community residents on low incomes.

Development agencies are increasingly employing social enterprise approaches to reduce income inequality and create opportunity in developing countries. And there is growing recognition that social enterprise must play a key role in achieving substantial progress on the Sustainable Development Goals (SDGs). Aid alone will not suffice.

The economic rationale for this is straightforward. Overseas Development Assistance (ODA) is critical, but as the below graph indicates the amount of money we spend globally on humanitarian aid (\$134.8

¹ Towards Human Resilience: Sustaining MDG Progress in an Age of Economic Uncertainty, 2015

billion in 2014) is dwarfed by the worldwide trade in goods and services (\$23 trillion in 2014). Trade, investment, and business activities are our most powerful drivers of

economic transformation and social change. Social enterprise offers a route beyond aid. It is way of harnessing trade, investment and business for social and environmental ends.

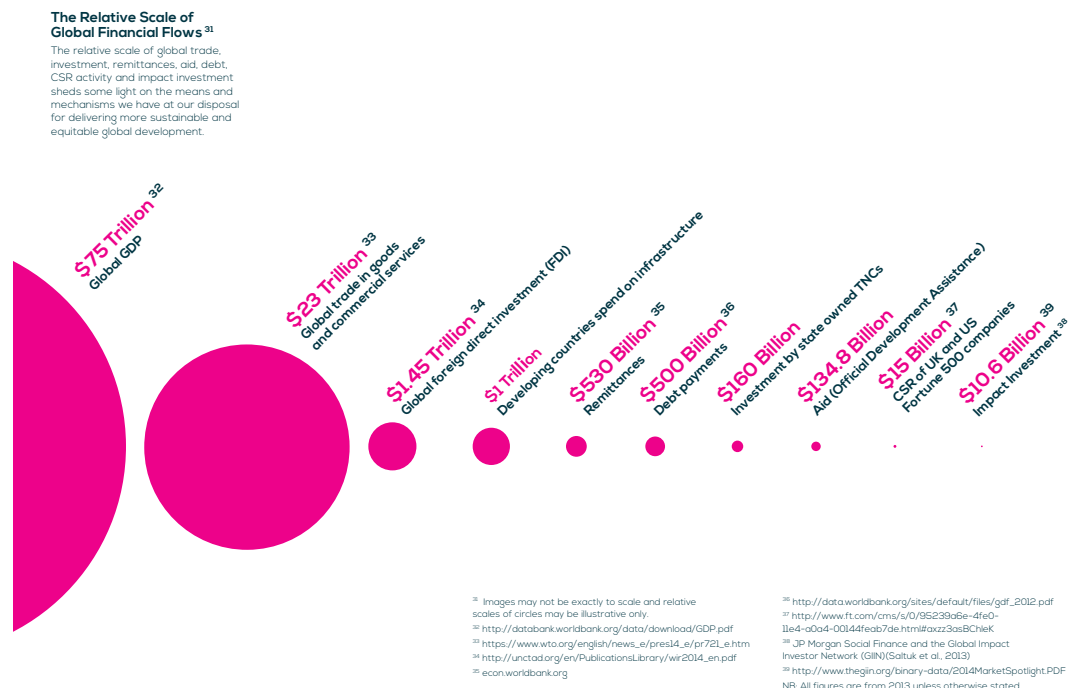


Figure 1 - Retrieved from "Think Global Trade Social", British Council, SEUK, et al, 27

This is why organisations such as The British Council² and ACCRA Foundation in Italy are delivering development programmes that promote social enterprise as a way to address entrenched problems, foster sustainable growth and reduce inequalities.

The example of social enterprise is starting to influence the values of mainstream companies, inciting some to embed positive social and environmental impact in their operations. In future, all organisations may be judged on a 'Social Impact Spectrum'³ as well as on their financial performance, affecting the way they trade and how they are rated by investors and the public. Their social impact will be evaluated on how they make their money – not simply on how they spend it through CSR.

In order to maximise the positive impact social enterprise can deliver, governments must "put in place policy frameworks to support more socially and environmentally responsible business practice, recognising the current gaps in this area across many countries"⁴. Such support will favour the creation of more inclusive and resilient economic growth.

To be sure, social enterprises are not the only solution to income inequality, but in a world of increasing complexity and limited government finance, they provide an agile, innovative and financially self-sustaining approach that deserves more support.

² <https://www.britishcouncil.org/society/social-enterprise>

³ *What will Social Enterprise look like in Europe by 2020?* British Council, Mark Richardson, James Catherall.

⁴ For instance, they could engage in the creation of incentives through tax and "regulatory regimes for business to behave with greater social and environmental responsibility", encourage research into the economic and social contribution of SEs, impose greater transparency for businesses, allowing people to make "socially conscious decisions" (British Council, SEUK, et al, 27).

SOCIAL INNOVATION FOR A MORE COHESIVE EUROPE

GIOVANNA MELANDRI, *Presidente Fondazione MAXXI*

The referendum's outcome has thrown many pro-Europeans in deep distress. I do not deny that it had the same impact on me. I grew up in the Anglo-Saxon educational system, I have always thought that the British contribution to the construction of Europe was, and still is, crucial. Furthermore, today, as I am dealing with social innovation, such division appears to me even more unhistorical and absurd.

The debate, at last in the context of building European social innovation and social enterprise, has benefited greatly from the positive drive and influence of the UK. Across Europe, an ecosystem capable of mobilizing financial resources that are generative rather than speculative has sought for a long time. Indeed, such an ecosystem is supposed to strengthen welfare systems, which are often hypertrophic in some sectors and totally undersized in others. (E.g. preventive interventions). With the Human Foundation, we carefully studied the intervention patterns related to the social investments, as well as the most innovative practices of social impact assessment. Most of these tools have been designed, tested and implemented in the United Kingdom. However, there is evidently a deeper problem: these tools alone are not sufficient to rebalance the inequality trends, which for decades have been digging a deep gap between elite -that increasingly becomes more elite- and an impoverished and "proletarianized" middle class. It this rift has fuelled the growth of euro-skeptic and populist forces across the West.

Therefore, Brexit questions us and leads us to a deeper level of analysis. In front of the crisis of European citizenship model, we need to articulate and frame the forces of social innovation and enterprise in a broader and more consistent framework of redistributive policies. Otherwise, innovation risks remaining a mere narrative, rather

than a substantive question. It is clear that the vote against Europe has taken place especially in areas where social disadvantage is more pronounced, where social innovation has not arrived, or, worse, it has been perceived as a risk factor for the welfare gains of the twentieth century. This vote requires everyone, those who are British and those who are not, to profoundly rethink the social and economic policies of this part of the world called Europe. We cannot accept the return to the "small countries", because Europe can only exist if it is plural and inclusive.

In these years, through the work of the G8 Task-force on Impact Investment, led by Sir Ronald Cohen, father of the Social Investment ecosystem (once Tony Blair's), the European discussion, concerning the social innovation tools, has been greatly developed. It's time that continental Europe begins to implement these instruments, it would be really paradoxical to turn our heads and no longer be able to find the UK representatives here in these working groups.

Through the Human Foundation and the newly formed Association "Social Impact Agenda per l'Italia", we will continue to confront and work with all the UK stakeholders, as we believe that the British perspective is particularly valuable to design a social model for Europe. A welfare system aimed at accompanying a person along the way of autonomy, emancipating the individual from the limiting barriers, a welfare of opportunities that balances the growing inequalities, a system that focuses on the results and effectiveness of the interventions since it has communities' well-being at heart. A sustainable welfare that together with committed organizations enables us to generate development processes through a social economy.

EUROPEAN MIGRATION AND THE JOB MARKET

CENTRO EUROPA RICERCA S.R.L.

The arrival of well over a million of refugees from the Middle East has shaken the European Union again in its foundations - the third major crisis, after the Global Financial Crisis and the Euro Crisis. The so called “migrant crisis” has been particularly severe from the second half of 2015. The number of first time asylum applicants increased by four times, passing from an average of 30.000-40,000 per month in the whole EU28 to over 140,000 per month in the last quarter of 2015.

Many people fear that native populations will lose out, because public resources are diverted to immigrants, and even more importantly they fear that immigrants will take away their jobs or make it harder for unemployed persons to find work. In Report 1/2016, CER provides some evidence on how immigration affects the European labour market.

We discovered that an important piece of data to draw conclusions about the labour market outcome of immigration is given by the skill structure of the two groups. When migrants’ skills are mainly substitutes of nationals’ skill then negative effects in terms of lower wages and higher unemployment

might arise. Positive effects instead can arise when immigrants fill a shortage of domestic labour supply in specific skills. For example, in countries where the share of low-skilled workers is relatively low and the population is aging fast, immigration might have positive effects on wages and employment of the nationals.

In order to infer the potential complementarity-substitution effect of immigrants, CER has measured the “skill overlap ratio”, given by the percentage of migrants and that of native population for each skill group (see figure 1). Especially in northern countries the index is far above one for low skilled due to the low share of native population, and the index for high skilled workers is around 1 or below, indicating comparative advantage within this category. The only the exception is UK, which reports a value above 1.3 because of its attractiveness in Europe for high skilled workers. These pieces of information suggest that in northern Europe, case migrants can be helpful as they fill a shortage in domestic labour supply of low skilled workers, whereas high skilled workers might be complementary to the domestic labour force.

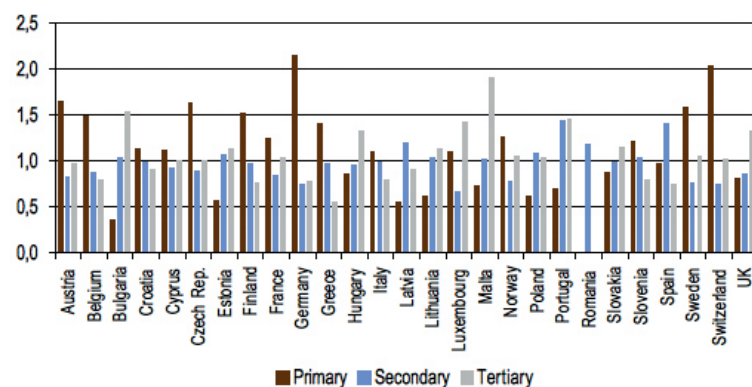


Figure 1. Skill overlap between migrants and native population in 2014

Note: the index is defined as ratio of the skill shares of migrant and native population.
Source: LFS.

In the rest of the area, the picture is more diversified. In Italy and Spain, the index is around one for low skilled workers and since these countries have a high share of low skilled, they might suffer the competition of migrant workers. As to high skilled workers, Italy seems to show a comparative advantage as the index is below one but due to the low share of native population with tertiary education this advantage is not exploited. In Greece, the distribution of the indexes is similar to many northern countries, with a high value for low skilled and a value slightly above 0.5 for high skilled. This suggests that demand for high skilled jobs is relatively low, probably due to the overall technological level of the country and that immigrants are likely to substitute domestic workers in low skilled job. The situation in Portugal looks more similar to that of many Eastern European countries, with migrants having in general a higher skill level whereas domestic labour force is still relatively unskilled. This last picture fits in the features of a catching up countries, which is importing human capital thanks to FDI from Western Europe and the rest of the world. The evidence from labour market data so far revealed that the competition of migrants in the labour market is stronger in peripheral EMU than in the rest of the EU due to the lower activity rates of native population. In addition, countries like Italy, Spain and Portugal seem to be penalized by their high share of low skilled workers, which are more likely to compete with migrants for low value added occupations. In northern Europe, instead, the unemployment pool has a higher share of migrants, partially confirming the fears of an excessive weight on their welfare system whereas the skill structure of the workforce suggest that migrants actually might help to fill the shortage in the supply of low skilled workers.

Starting from this evidence, CER has conducted an econometric exercise, estimating the impact of immigration on domestic labour markets in Western Europe. Through a Panel VAR we calculated the response of wages and the employment rate of native population to an immigration shock. Immigration is defined by the growth rate of foreign active population. In table 1A

we report the estimated coefficients of the PVAR for the whole sample (column 1) and for the two sub-samples of peripheral and core countries (columns 2 and 3). In the upper panel we show the determinants of migration and we find that it is strongly influenced by wages and population dynamics. Thus, wage levels are a major determinant of migration flows. In the second panel we show the determinants of the employment rate of native population. Interestingly, migration has a negative impact on natives’ employment in peripheral countries whereas wages are significant only in core countries; as expected, GDP growth has positive effects on the employment rate. The last panel shows the determinants of wages. Migration, again, affects mainly peripheral countries and the impact is positive, suggesting that migrant workers might help to fill a gap in local human capital which might be a complement to native high skilled workers.

In Figure 2 to 4, we report the impulse response functions of a migration shock. For the whole sample (Figure 2), the response of wages is insignificant whereas that of natives’ employment rate is positive and significant but lasts only 1 period (1 year). The implied elasticity of a 1% acceleration in active migrant population growth cause a total rise of natives’ employment rate by 1.5%¹. This average impact hides opposite dynamics in the core and periphery. In the latter (Figure 3), the effect on natives’ employment rate is negative and significant from the first period after the shock to the fourth whereas the initial positive impact is significant only at 10% level. We also observe a positive effect on wages but significant only in the second period and then fading to zero. These estimates imply an elasticity of -4.5% for the employment rate, that is, a 1% acceleration in migrant active population reduces the employment rate by 4.5%. The elasticity of wage is 0.18, meaning wages will grow by 0.18% to a 1% acceleration in migrant active population growth. On the opposite, for core countries (Figure 4) we find an impact similar to the overall one, with wages showing no significant response to migration, whereas employment reacts positively but the response last one period only. The

¹ Elasticities are calculated as the ratio of the cumulated IRF of either wages or the employment rate to the cumulated response of active migrant population to itself.

